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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION  
OF WILHOIT WATER COMPANY  
(YAVAPAI MOBILE HOME ESTATES),  
FOR APPROVAL OF FINANCING FOR A  
NEW ARSENIC TREATMENT SYSTEM

DOCKET NOS. W-02065A-07-0308  
W-02065A-07-0309  
W-02065A-07-0311  
W-02065A-09-0123

DECISION NO. 71953

ORDER

Open Meeting  
October 19 and 20, 2010  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On August 6, 2010, pursuant to Decision No. 71235, Wilhoit Water Company (Yavapai Mobile Home Estates) ("Wilhoit" or "Company") filed with the Arizona Corporation Commission ("Commission") documentation from the Water Infrastructure Finance Authority ("WIFA") to fulfill the compliance requirements set forth in that Decision as prerequisites for implementation of an Arsenic Remediation Surcharge Mechanism ("ARSM").

2. Decision No. 71235 ordered the Company to file within 60 days of loan closing copies of executed loan documents. The Decision also directed Staff to calculate the actual surcharge rates and file the appropriate surcharge amount to be collected from customers according to their meter size within 30 days of the Company's filing.

...

3. Pursuant to Decision No. 71235, Wilhoit filed the required loan documents prior to the implementation of the ARSM.

### **Background**

4. On June 13, 2008, the Commission approved a permanent rate increase (Decision No. 70384) authorizing Wilhoit to recover \$36,105, which it had expended for the installation of an arsenic remediation system by means of an Arsenic Cost Recovery Mechanism("ACRM").

5. Subsequently, the arsenic remediation system installed by the Company failed, and it became necessary for the Company to replace the ineffective system with a more expensive system.

6. On March 17, 2009, the Company filed a financing application seeking approval to borrow \$280,042 from WIFA to fund a new remediation system, which was to be repaid utilizing an ARSM in lieu of the previously-approved ACRM.

7. In Decision No. 71235, dated August 6, 2009, the Commission authorized the Company's requests to issue debt to finance a new remediation system and to replace the ACRM with an ARSM.

8. On March 8, 2010, WIFA approved a \$280,042 loan to Wilhoit Water Company – Yavapai Estates, a twenty-year loan bearing a one percent combined interest and fee rate. A copy of the executed loan documents was docketed with the Commission on August 6, 2010.

### **ARSM Surcharge Calculation**

9. Decision No. 71235 ordered that, upon the Company's filing of the appropriate WIFA loan documentation, Staff shall calculate the actual arsenic remediation surcharge and file the appropriate surcharge amount to be collected from the Company's customers according to their meter size.

10. The Company has filed the required loan documentation, and Staff has calculated the arsenic remediation surcharge necessary to recover the debt service cost.

11. Staff's calculation utilized the Company's customer billing determinants to compute the appropriate arsenic remediation surcharge based on meter size in accordance with the method authorized in Decision No. 71235.

12. The authorized ARSM provides for recovery of the arsenic remediation revenue requirement as a fixed monthly charge.

13. The WIFA loan documentation shows that the annual debt service on the \$280,042 loan at 1.0 percent per annum is \$15,813 (\$13,072 principal and \$2,741 interest).

14. An ARSM provides for recovery of incremental income taxes on the surcharge.

15. Since interest expense is tax deductible, an income tax provision is required only for the principal portion of the debt service.

16. The incremental income tax is \$4,184 resulting in a \$19,997 (\$15,813 + \$4,184) total annual arsenic surcharge revenue requirement.

17. Staff's calculation of the arsenic remediation surcharge is shown in Schedule GTM-1. The surcharge for a customer with a 5/8 x 3/4-inch meter is \$13.23.

#### CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. 40-250 and 40-252.

2. The Commission has jurisdiction over the Company and the subject matter of the application.

3. Approval of the proposed arsenic surcharge is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for implementation of the ARSM as discussed herein.

#### ORDER

IT IS THEREFORE ORDERED that the application by Wilhoit Water Company (Yavapai Mobile Home Estates) for the implementation of an ARSM surcharge is approved for all customer billings subsequent to October 31, 2010, as discussed herein.

IT IS FURTHER ORDERED that the ARSM surcharge for Wilhoit Water Company (Yavapai Mobile Home Estates) shall be in accordance with the rates as shown in the attached ACRM Schedule GTM-1.

...

1 IT IS FURTHER ORDERED that Wilhoit Water Company (Yavapai Mobile Home  
2 Estates) docket with the Commission an ARSM tariff consistent with the rates reflected in  
3 Schedule GTM-1 within 7 days of the effective date of this Decision.

4 IT IS FURTHER ORDERED that Wilhoit Water Company (Yavapai Mobile Home  
5 Estates) shall notify its customers of the arsenic remediation surcharge approved herein within 30  
6 days of the effective date of this Decision.

7 IT IS FURTHER ORDERED that the collection of the surcharges is authorized until the  
8 Commission establishes new rates.

9 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

10  
11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

12   
13 CHAIRMAN

  
COMMISSIONER

14   
15 COMMISSIONER

  
16 COMMISSIONER

  
17 COMMISSIONER

18 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
19 Executive Director of the Arizona Corporation Commission,  
20 have hereunto, set my hand and caused the official seal of  
21 this Commission to be affixed at the Capitol, in the City of  
22 Phoenix, this 15<sup>th</sup> day of November, 2010.

23   
24 ERNEST G. JOHNSON  
25 EXECUTIVE DIRECTOR

26 DISSENT: \_\_\_\_\_

27 DISSENT: \_\_\_\_\_

28 SMO:GTM:lhmvAV

1 SERVICE LIST FOR: Wilhoit Water Company (Yavapai Mobile Estates)  
2 DOCKET NOS. W-02065A-07-0308; W-02065A-07-0309; W-02065A-07-0311; W-01303A-09-  
3 0123

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Wilhoit Water Company (Yavapai Estates)  
Docket No. W-02065A-07-0309  
Application For Financing

Schedule GTM-1

**CALCULATION OF SURCHARGE AMOUNT**

Arsenic Surcharge - as determined by Arsenic Remediation Surcharge Mechanism

1	Loan Amount	\$ 280,042
2		
3	Total Yearly Interest and Principal Payments Based on a	
4	19.5-year WIFA Loan and a 1.0 percent interest rate.	\$ 15,813
5		
6	Annual Income Tax Component of the Surcharge Revenue	\$ 4,184
7		
8	Total Annual Surcharge Revenue Requirement for the Loan	\$19,997
9		
10	Total Equivalent Annual Bills (126 customers X 12)	1,512
11		
12		
13		
14		
15		
16	5/8 x 3/4-Inch Meter Surcharge Amount	\$ 13.23
17		
18	3/4-Inch Meter Surcharge Amount	\$ 19.85
19		
20	1-Inch Meter Surcharge Amount	\$ 33.08
21		
22	1 1/2-Inch Meter Surcharge Amount	\$ 66.15
23		
24	2-Inch Meter Surcharge Amount	\$ 105.84
25		
26	3-Inch Meter Surcharge Amount	\$ 211.68
27		
28	4-Inch Meter Surcharge Amount	\$ 330.75
29		
30	6-Inch Meter Surcharge Amount	\$ 661.50
31		
32		
33		
34		

Meter Size	Number of Customers	Customer Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8 x 3/4 " Meter	93	1	93	1,116	13.23	159	14,765
3/4" Meter	-	1.5	0	-	19.85	-	-
1" Meter	-	2.5	0	-	33.08	-	-
1 1/2" Meter	-	5	0	-	66.15	-	-
2" Meter	1	8	8	96	105.84	1,270	1,270
3" Meter	-	16	0	-	211.68	-	-
4" Meter	1	25	25	300	330.75	3,969	3,969
6" Meter	-	50	0	-	661.50	-	-
Total	95		126				20,004